

Message Text

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ACTION NEA-06

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CIAE-00 SP-02 SAM-01 PRS-01 /039 W

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P R 171244Z MAR 75

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC PRIORITY 660

INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

C O N F I D E N T I A L SECTION 1 OF 2 TEHRAN 2482

LIMDIS

BEIRUT PASS BAGHDAD

E.O. 11652: GDS

TAGS: ENRG, IR

SUBJ: NIOC/CONSORTIUM MEMBERS SOLVE PRICE DISPUTE

REF: (A) TEHRAN 1977; (STADIS); (B) TEHRAN 0290

SUMMARY: NIOC AND CONSORTIUM MEMBERS MARCH 11 REACHED AMICABLE INTERIM COMPROMISE ON PRICING DISPUTE: NIOC PRICING FORMULA WILL BE RETAINED FOR PRESENT BUT MEMBERS WILL RECEIVE ADDITIONAL 25 DAYS PAYMENT GRACE PERIOD (FOR TOTAL OF 85 DAYS). MEMBERS THUS WILL PAY FOR JANUARY LIFTINGS ON APRIL 9 INSTEAD OF MARCH 14. GOI OIL REVENUE RECEIPTS FOR IRANIAN YEAR 1353 (ENDING 3/20/75) WILL BE REDUCED BY ABOUT DOLS1.425 BILLION. ADDITIONAL 25 DAYS GRACE WE UNDERSTAND IS CURRENTLY WORTH ABOUT 7 CENTS PER BARREL. NET ADDITIONAL INCOME TO MEMBER COMPANIES, HOWEVER, IS ONLY ABOUT 3 AND 1/2 CENTS PER BARRELL--AN AMOUNT CLOSE TO THE 4 CENTS PREVIOUSLY IN DISPUTE. REASON FOR THIS IS THAT
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ADDITIONAL CREDIT GENERATES INTEREST INCOME IN CONSUMER

COUNTRIES, ABOUT HALF OF WHICH COMPANIES WILL HAVE TO PAY IN CONSUMER GOVERNMENT CORPORATE TAXES. TO PRESERVE ITS PRICING FORMULA AND SAVE FACE, IRAN HAS IN EFFECT PROVISIONALLY ACCEPTED LOWER LEVEL OF EFFECTIVE GOVERNMENT TAKE THAN IT WOULD HAVE RECEIVED UNDER ABU DHABI FORMULA CORRECTLY APPLIED. NIOC HAS ASKED COMPANIES TO HOLD THIS AGREEMENT CONFIDENTIAL. ALL ADDRESSEES PLEASE HOLD CONTENTS OF THIS CABLE CLOSELY. END SUMMARY.

2. CONSORTIUM MEMBERS, LED BY SUTCLIFFE OF BP AND FOLMAR OF TEXACO, MET WITH GOI OPEC REP AMOUZEGAR AND NIOC MORNING OF MARCH 11. IN BRIEF AND FRIENDLY SESSION, TWO SIDES WORKED OUT COMPROMISE SOLUTION UNDER WHICH NIOC WILL MAINTAIN ITS PRICING FORMULA AS PREVIOUSLY REPORTED, BUT MEMBERS WILL HAVE ADDITIONAL 25 DAYS GRACE PERIOD TO PAY FOR OIL. AT BEGINNING OF MEETING SUTCLIFFE NOTED MEMBERS HAD HOPED SETTLEMENTS WOULD HAVE BEEN REACHED ELSEWHERE THAT WOULD HAVE CLARIFIED THE SITUATION. FOLMAR BRIEFLY EXPLAINED THAT US ARAMCO PARTNERS HAD MET ONCE WITH SAG AND THAT NEGOTIATIONS HAD BEEN "VERY CONSTRUCTIVE." MEETING HAD HAD TO BE ADJOURNED DUE RECENT ROUND OF OPEC MEETINGS, AND U.S. COMPANIES NOW SEEKING TO ARRANGE ANOTHER MEETING WITH SAG. MEMBERS BRIEFED IRANIAN TEAM ON PRESENT METHODS OF PAYMENT IN SAUDI ARABIA, ABU DHABI, QATAR AND KUWAIT. THEY WERE ALSO PREPARED TO BRIEF ON BASRAH, BUT DID NOT GET AROUND TO IT. THERE WAS CONSIDERABLE DISCUSSION OF KUWAIT CASE, WITH AMOUZEGAR ARGUING THAT KUWAIT, BY ITS FORMULA, WAS GETTING EXTRA 4 TO 4 AND 1/2 CENTS IN GOVERNMENT TAKE, WHILE COMPANIES ATTEMPTED TO SHOW THIS WAS NOT THE CASE. (EXPLANATION FOLLOWS BY AIRGRAM.) AMOUZEGAR COMMENTED THAT TWO COUNTRIES IN GULF WERE USING "NOTIONAL 12 CENT PRODUCTION COST" IN THEIR CALCULATIONS. COMPANIES WERE NOT CERTAIN WHICH COUNTRIES HE MEANT AND HAD NO OPPORTUNITY TO OBTAIN CLARIFICATION.

3. IN ANY CASE, SAID AMOUZEGAR, IRAN IS PREPARED TO COMPENSATE COMPANIES FOR EXTRA FOUR CENTS GOVERNMENT TAKE, NOT BY CHANGING THE PRICE FORMULA, BUT BY EXTENDING PAYMENT PERIOD BY 15 DAYS. COMPANIES NOTED THAT WHILE THIS WOULD GIVE THEM ADDITIONAL INTEREST INCOME ABOUT EQUAL TO FOUR CENTS PER BARREL, THE INTEREST WOULD ACCRUE IN CONSUMER COUNTRIES, WHERE THEY WOULD LOSE ABOUT HALF OF IT IN CORPORATE INCOME TAXES. FURTHER, THIS MECHANISM (SAID MEMBERS) WOULD PRESERVE A BAD PRINCIPLE--THAT OF INFLECTING VARIATIONS IN PRODUCTION COST ON THE BUYER--WHICH COULD CREATE IMPOSSIBLE SITUATION FOR HIGH COST AREAS AND FIELDS. AMOUZEGAR ASSURED MEMBERS THAT IRAN DID NOT INTEND THIS: THEY WERE ASKING COMPANIES TO ABSORB COSTS ONLY UP TO THE 16.2 CENTS/BARREL ESTIMATED FOR 1975; ANYTHING BEYOND THAT WOULD BE ABSORBED BY NIOC. (COMPANIES SAW THIS AS TACIT ADMISSION BY AMOUZEGAR THAT ORIGINAL NIOC PRICING FORMULA HAD BEEN IN ERROR.)

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AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

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4. AFTER A SHORT RECESS, DURING WHICH MEMBERS CONFERRED, COMPANIES PROPOSED TO AMOUZEGAR THAT EFFECTS OF ADDITIONAL GRACE PERIOD BE INCORPORATED IN BALANCING MARGIN. AMOUZEGAR SAID NO; "THAT WOULD BE CUTTING THE PRICE." COMPANIES AGAIN NOTED THEY WOULD LOSE HALF OF THE COMPENSATION VIA A PAYMENT GRACE PERIOD IN TAXES OUTSIDE IRAN. THUS THEY WOULD NEED DOUBLE THE NUMBER OF DAYS. AMOUZEGAR REPLIED THAT COMPANIES COULD HAVE 20 DAYS ADDITIONAL CREDIT. COMPANIES SAID, "NO, THIRTY DAYS." DR. EGHBAL (NIOC CHAIRMAN AND GENERAL MANAGING DIRECTOR) OFFERED 25 DAYS. COMPANY REPS STARED AT EACH OTHER, THEN SUTCLIFFE OF BP ACCEPTED.

5. MEMBERS WERE MUCH IMPRESSED WITH WHAT THEY REPEATEDLY CALLED "AMOUZEGAR'S CONCILIATORY MOOD" AND FELT AMOUZEGAR AND NIOC REPS CAME INTO MEETING LOOKING FOR FACE-SAVING WAY OF BACKING DOWN. AMOUZEGAR REPEATEDLY EMPHASIZED THAT GOI THOUGHT COMPANIES SHOULD GET LARGER MARGIN AND REFERRED TO 50 CENTS MENTIONED BY SHAH. AMOUZEGAR NOTED THAT THERE ARE TWO SCHOOLS OF THOUGHT IN PERSIAN GULF ON HOW TO HANDLE PRODUCTION COSTS: (A) TO TAKE AN AVERAGE OF ALL COSTS IN THE GULF AND USE THIS FIGURE AS A FIXED NOTIONAL

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COST WHICH WOULD BE ADDED TO FIXED LEVELS OF "GOVERNMENT TAKE" TO GIVE "PRICE TO COMPANIES," AND (B) TO HAVE FIXED MARKET PRICES, WITH PRODUCERS ABSORBING THE COST OF PRODUCTION. (NOTE: MEMBERS DIFFERED SOMEWHAT IN THEIR UNDERSTANDING OF AMOUZEGAR'S REMARKS ON THIS SUBJECT. WE ARE NOT CERTAIN OF WHAT HE MEANT.

6. FOLMAR OF TEXACO HAD "VERY CORDIAL" HALF-HOUR MEETING WITH AMOUZEGAR LATE AFTERNOON OF MARCH 11. FOLMAR SAID HE DISCUSSED COMPANIES' PROBLEMS "OPENLY AND POINTEDLY," NOTING THAT THIS YEAR MEMBERS WOULD HAVE TO CONTRIBUTE ALMOST ALL PROFITS FROM IRAN INTO THE FIELDS AS THEIR SHARE OF CAPITAL, WHILE IN 1976 THEY WOULD EARN VERY THIN MARGIN, EVEN AT 22 CENTS, AND WOULD HAVE NEGATIVE CASH FLOW (DUE CAPITAL CONTRIBUTIONS). IN THESE CIRCUMSTANCES, FOLMAR NOTED, IT IS HARDLY WORTH COMPANIES' WHILE TO HAVE A NUMBER OF THEIR TOP TECHNICAL MEN ASSIGNED TO OSCO AND SOME OF THEIR HOME OFFICE TECHNICAL TALENT DEDICATED TO ASSISTING IRANIAN PRODUCTION. AMOUZEGAR REPORTEDLY INDICATED THAT HE HOPES ALL OF PG PRODUCERS WILL ADOPT UNIFORM FORMULA THAT WILL BE LIVABLE FOR COMPANIES, BUT SAID "IF KUWAIT SHOULD COME UP WITH SOME ODDBALL FORMULA WE CAN LIVE WITH IT" (MEANING PRESUMABLY THAT GOI WOULD NOT NECESSARILY INVOKE MFN PRINCIPLE IN SUCH A CASE). FOLMAR ASKED THAT AMBASSADOR EXPRESS TO GOT HIS GRATIFICATION WITH GOI'S "CONCILIATORY HANDLING" OF THIS COMPROMISE. AMBASSADOR MARCH 13 TOLD COURT MINISTER ALAM HE WAS PLEASED GOI AND MEMBERS HAD ARRIVED AT FRIENDLY COMPROMISE.

7. AMUSING FEATURE OF COMPROMISE IS THAT TO COMPENSATE FOR ITS FOUR CENTS/BARREL ERROR, GOI HAS HAD TO GIVE UP, IN EFFECT, 7 CENTS/BARREL, ABOUT HALF OF WHICH WILL GO TO COMPANIES (I.E., SOMEWHAT LESS THAN THEIR FOUR CENTS) AND HALF TO GOVERNMENTS OF NATIONS IN WHICH OIL COMPANIES KEEP THEIR BANK ACCOUNTS (MOST, PRESUMABLY, TO U.S. AND U.K.). THUS GOI HAS TRANSFERRED SOME \$60 MILLION FROM ITS POCKET TO THOSE OF U.S., U.K. AND OTHERS.

8. JUST BEFORE TRANSMITTING THIS CABLE WE RECEIVED MARCH 17 ISSUE OF PETROLEUM INTELLIGENCE WEEKLY (PIW), LEAD ARTICLE OF WHICH ACCURATELY DESCRIBES NIOC/CONSORTIUM SETTLEMENT. ADDRESSEES ARE NEVERTHELESS REQUESTED TO HOLD CLOSELY DETAILS OF NEGOTIATION AND SIGNIFICANCE OF AGREEMENT AS REPORTED THIS CABLE.
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